

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

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PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /123 W

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R 011635Z MAR 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3962

INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USMISSION OECD PARIS

AMEMBASSY VIENNA

USINT BAGHDAD

USMISSIONEC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY BEIRUT

C O N F I D E N T I A L ALGIERS 0541

E.O. 11652: GDS

TAGS: ENRG AG US

SUBJECT: CONVERSATION WITH MINISTER ABDESSELAM; ALGERIAN VIEW OF
WORLD OIL PRICE

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REF: ALGIERS 0540

1. SUMMARY: ALGERIAN MINISTER OF INDUSTRY AND ENERGY TOLD UNDER SECRETARY ROBINSON THAT MOST PROBABLE OUTCOME OF JUNE OPEC MEETING WOULD BE CONTINUATION OF PRESENT MARKET CRUDE PRICE. IN 1977, ALGERIANS BELIEVED OIL PRICES SHOULD RISE BUT PERHAPS BY LESSER PERCENTAGE THAN RATE OF WORLD INFLATION. END SUMMARY.

2. THIS IS THE SECOND IN A FOUR-PART SERIES REPORTING A FEB 28 CONVERSATION BETWEEN UNDER SECRETARY ROBINSON AND ALGERIAN MINISTER OF INDUSTRY AND ENERGY ABDESSELAM.

3. IN RESONSE TO QUESTION FROM UNDER SECRETARY ROBINSON, MINISTER ABDESSELAM DESCRIBED CURRENT THINKING RE NUMBER OF ISSUES NOW UNDER CONSIDERATION BY OPEC. HE NOTED THAT EACH INDIVIDUAL OPEC COUNTRY WAS NOW TRYING TO ALIGN ITS PRICE DIFFERENTIAL WITH RESPECT TO THE PRICE OF MARKER CRUDE BUT THAT NO OPEC DECISION HAD BEEN TAKEN ON THIS SUBJECT. ALGERIA, ABDESSELAM CONTINUED, HAD TRIED TO FIND A RATIONAL BASIS FOR SOLVING THIS PROBLEM AND HAD DESIGNED ITS OWN AUTOMATIC FORMULA BASED ON KNOWN MARKET INDICES. THIS SYSTEM HAD BEEN PUT INTO EFFECT ON JAN 1 OF THIS YEAR AND AT THE MOMENT WAS WORKING TO THE SATISFACTION OF BOTH ALGERIA AND ITS CLIENTS. THE SYSTEM WAS NOT UNIVERSAL, HOWEVER, AS SOME CLIENTS HAD PREFERRED TO REMAIN WITH QUARTERLY PRICE RENEGOTIATION SYSTEM PREVIOUSLY IN USE. ABDESSELAM ADDED THAT THERE HAD BEEN NO MOVE TO CHANGE THE ALGERIAN OIL PRICE WHICH HAD BEEN AGREED ON EARLIER THIS YEAR BETWEEN SONATRACH AND ITS CUSTOMERS.

4. ABDESSELAM THEN EXPLAINED THE MECHANICS OF OIL PRICING--I.E., MARKER CRUDE PRICE PLUS DIFFERENTIALS BASED ON VARIOUS FACTORS. IT WAS THE PRICE OF MARKER CRUDE THAT WAS IMPORTANT, AND ABDESSELAM NOTED THAT THIS MARKER CRUDE PRICE HAD BEEN FROZEN BY OPEC UNTIL JUNE 1976, AFTER A 10 PERCENT INCREASE IN SEPTEMBER OF LAST YEAR. AT THE NEXT OPEC MEETING THE MARKER CRUDE PRICE WILL AGAIN BE EXAMINED. SOME WILL ASK FOR AN INCREASE; SOME WILL ASK FOR NO CHANGE, BUT IT WAS CONFIDENTIAL

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UNLIKELY, ABDESSELAM SAID JOKINGLY, THAT ANYONE WOULD ASK FOR A DECREASE. IF OPEC MEMBERS FAVORED AN INCREASE, ALGERIA WOULD NOT SAY NO. ABDESSEALM ADDED, HOWEVER, THAT GOA THOUGHT MOST PROBABLE OUTCOME WOULD BE THAT MARKER PRICE WOULD REMAIN AS IT IS UNTIL THE END OF 1976.

5. OUR BASIC PLAN, ABDESSELAM SAID, IS TO FIGHT TO SAFEGUARD OUR PRODUCING POWER. ON THIS BASIS, WE MIGHT

EXPECT TO FAVOR A PRICE INCREASE IN JUNE. HOWEVER, THERE ARE OTHER CONSIDERATIONS. IF THE PRICE FREEZE CONTINUES UNTIL THE END OF THE YEAR, IT MIGHT CONTRIBUTE TO THE NORMALIZATION OF THE WORLD ECONOMIC ORDER, WHICH IN TURN MIGHT CREATE AN INCREASE IN DEMAND FOR CRUDE OIL. BEGINNING IN 1977, HOWEVER, ALGERIANS THOUGHT PRICE OF OIL SHOULD INCREASE BASED ON THE RATE OF WORLD INFLATION. PERHAPS, HOWEVER, IT WOULD NOT BE NECESSARY TO READJUST PRICE BY THE FULL RATE OF INFLATION. IT MIGHT BE ENOUGH TO INCREASE THE MARKER PRICE BY ONLY A PORTION OF THE RATE OF INFLATION. THIS IS THE SAME IDEA, ABDESSELAM SAID, THAT ALGERIA HAD SUGGESTED AT THE ALGIERS OPEC SUMMIT 1975--I.E., APPLYING ONLY A FRACTION OF WORLD RATE OF INFLATION TO OIL PRICES. OUR HOPE, ABDESSELAM ADDED, IS THAT WE CAN REACH POINT WHERE RATE OF WORLD INFLATION WILL BE SMALL SO THAT WE CAN THEN ESCALATE OIL PRICES BY FULL RATE OF WORLD INFLATION.

6. UNDER SECRETARY ROBINSON COMMENDED ABDESSELAM ON HIS SENSITIVITY TO WORLD ECONOMIC CONDITIONS AND HIS DESIRE TO HOLD THE LINE ON OIL PRICES UNTIL THE END OF THIS YEAR. THIS WOULD CONTRIBUTE TO WORLD ECONOMIC STABILITY AND A MODERATION IN THE RATE OF INFLATION. IRANIANS HAD RECENTLY DECREASED THEIR HEAVY CRUDE PRICE BY 9.5 CENTS PER BARREL BUT THIS STEP, IN VIEW OF U.S. EXPERTS HAD NOT BEEN SUFFICIENT TO RESTORE COMPETITIVITY WITH LIGHTER OILS. IRAN'S PROBLEM WAS ALSO COMPOUNDED BY PRICE CUTTING IN IRAQ.

7. ABDESSELAM RESPONDED THAT ALGERIANS HAD SUGGESTED TO IRAN SOME TIME AGO THAT IT REDUCE ITS PRICES TO ALIGN ITSELF WITH OTHER OPEC CRUDE PRICES AND THUS BELIEVED IRAN HAD MADE CORRECT DECISION. HE ADDED THAT CONFIDENTIAL

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ALGERIA HAD ALSO TOLD IRAQ, A YEAR AGO, THAT ITS PRICES WERE TOO LOW, AND ALGERIA WAS PRESENTLY ACTING TO BRING ABOUT A REALIGNMENT OF THE IRAQI CRUDE PRICES. AS A RESULT OF GOA ACTIONS, ABDESSELAM CONTINUED, NIGERIA HAD RAISED ITS OIL PRICES, AS HAD LIBYA TO SOME EXTENT. ABDESSELAM ADDED LAUGHINGLY THAT IRAQIS WERE NO LONGER MARKETING CRUDE FROM MEDITERRANEAN PORTS BECAUSE THEY WERE TIRED OF HEARING ALGERIANS COMPLAIN. LITTLE BY LITTLE, ABDESSELAM CONTINUED, OPEC DIFFERENTIALS ARE BEING ALIGNED.

8. ABDESSELAM THEN SAID THAT HE LOOKED FOR AN INCREASE IN THE SPIRIT OF COOPERATION AND A GREATER SOLIDARITY BETWEEN PRODUCERS AND CONSUMERS OF OIL IN THE FUTURE. THIS WOULD PARTIALLY RESULT FROM THE FACT THAT

AS OPEC COUNTRIES REACHED HIGHER LEVELS OF
DEVELOPMENT, THEIR REVENUES WOULD BE FED BACK TO INTER-
NATIONAL BUSINESS TO PAY FOR IMPORTED EQUIPMENT. THEN,
ABDESSELAM CONCLUDED, EVEN IF OIL PRICES WERE TO RISE,
IT WOULD BE LESS OF A PROBLEM FOR THE BALANCE OF
PAYMENTS OF THE INDUSTRIALIZED WORLD.PARKER

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